

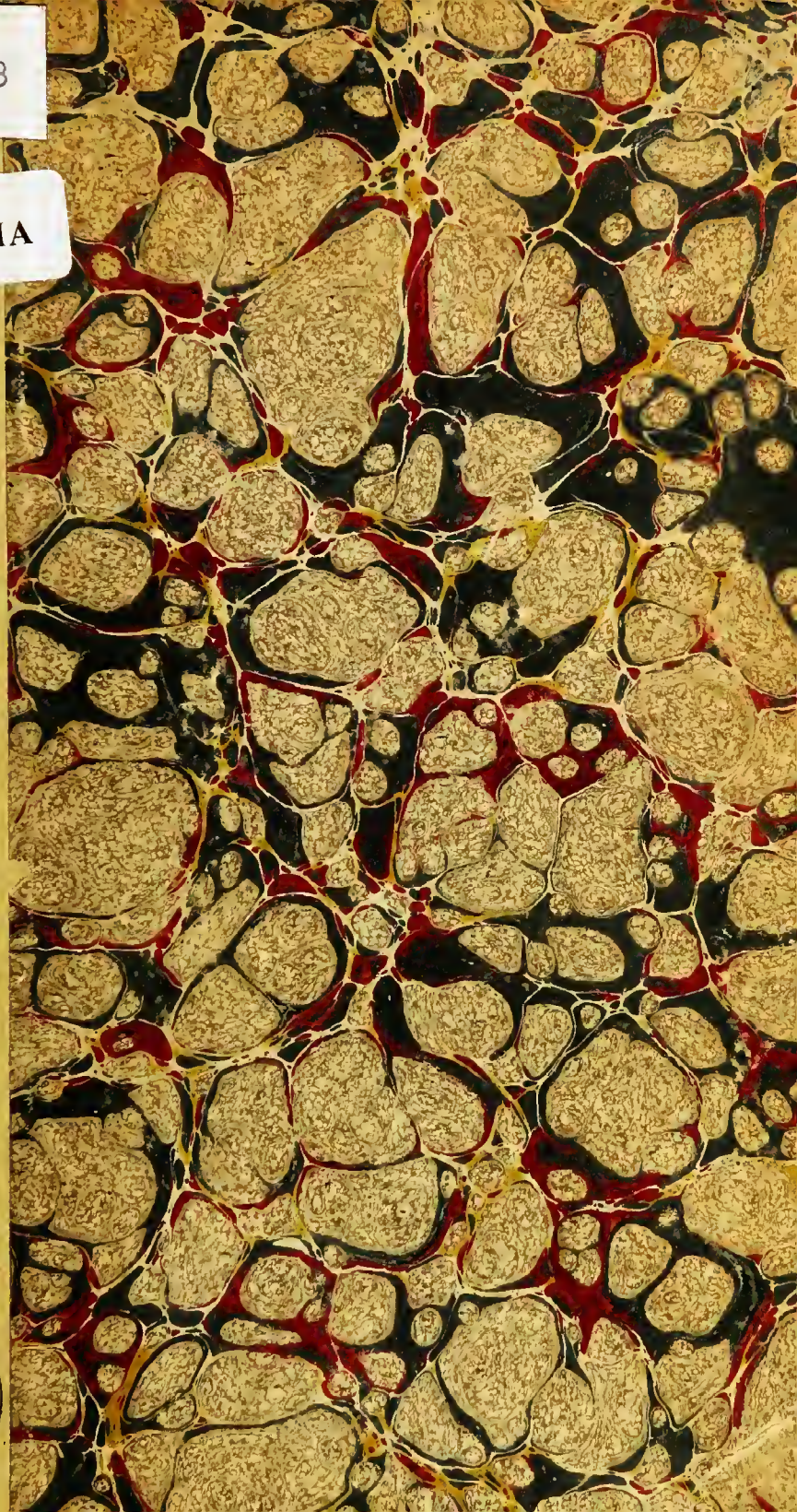
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RICARDO'S EXCHANGE REMEDY:

A PROPOSAL

*to regulate the Indian Currency by making it expand
and contract automatically at fixed sterling rates,
with the aid of the Silver Clause of the Bank Act.*

BY

A. M. L.,

FELLOW OF THE BANKERS' INSTITUTE,

AUTHOR OF

"A GOLD STANDARD WITHOUT A GOLD COINAGE."



LONDON:

EFFINGHAM WILSON & CO., ROYAL EXCHANGE.

MANCHESTER: PALMER & HOWE, 73, 75, & 77, PRINCESS STREET.

GLASGOW: JAMES MACLEHOSE & SONS, 61, ST. VINCENT STREET.

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D

P R E F A C E .

In 1889 Mr. Gladstone wrote "Every wisely governed State should seek to have for its standard of value the commodity which is the least subject to fluctuation ; that commodity, as I conceive, is gold." This opinion is confirmed by the desire shown by all civilised nations to maintain or secure a gold standard of value. The more generally gold is used, the more objectionable will a silver standard become, because the larger the area ruled by gold the more will the foreign exchanges of silver-using countries be liable to disturbance. There is, therefore, every reason to expect that on the principle of the survival of the fittest, the silver standard will, ere long, cease to be employed. In these circumstances it is of vital importance to ascertain how a gold standard can be maintained on a satisfactory footing with the use of the minimum quantity of gold and the maximum quantity of silver. The object of this pamphlet is to point out that Mr. Ricardo explained in 1819 how this can best be done. His celebrated scheme for "A Secure and Economical Currency" enables a country to adopt a gold standard without a gold coinage. It will be found well fitted for the use of the poorer nations that employ gold coins at present, and for all that have inconvertible paper or silver standards. Under its provisions, India might adopt a gold

standard without diminishing much the demand for silver, and without increasing in the least degree the demand for gold.

The proposals contained in these pages were first made by me in 1876. They appeared in the "Calcutta Review" of October 1878, and July 1885, and in the "Bankers' Magazine" of August and September 1892; also in letters to the "Economist" and Indian papers. The Indian exchange question having now assumed an acute phase, I have been asked to lay them before the public in pamphlet form.

A. M. L.

3, ELYSIUM ROW, CALCUTTA,

September, 1892.

RICARDO'S EXCHANGE REMEDY.

I.—INDIAN CURRENCY SCHEME.

In intricate questions of currency, as well as of law, it is desirable to have an authoritative precedent to aid us in arriving at a right decision. The object of this pamphlet is to point out that India and other countries that suffer from extreme uncertainty in their gold exchanges might remedy the evil by following the precedent established by England in 1820.

Use of
Precedents.

Towards the beginning of the present century trade was disturbed by the want of fixity in the foreign exchanges. In 1810 the Bullion Committee was "appointed to enquire into the cause of the high price of gold bullion, and to take into consideration the state of the circulating medium, and of the exchanges between Great Britain and foreign parts." The result of this investigation will be found to correspond with the conclusion arrived at by the late Royal Commission regarding the cause of the high price of gold bullion in India and the fall in the gold value of the Indian currency and other silver. The Bullion Committee held that the high price of bullion and low state of the Continental exchanges in those days arose from the suspension of the conversion of the circulating medium into gold. The Members of the Royal Commission were unanimously of opinion that the bimetallic system when in force "kept the market price of silver approximately fixed," and they held that the low and uncertain state of the Indian exchange is primarily attributable to the fact that silver can no longer be converted on demand into bimetallic money, which was equivalent to gold. The cause of the evil in both

Exchange
troubles in
1800 to 1820.

All trouble
avoided by
converti-
bility into
gold.

cases was the suspension of convertibility into gold. The convertibility in the one case was direct, in the other indirect but none the less effective. The Royal Commission came to no agreement with regard to a remedy, whereas the Bullion Committee reported unanimously that the only adequate remedy was to make the currency convertible on demand into gold. The currency at that time was based on inconvertible notes of the Bank of England, and Mr. Ricardo suggested that stability in the foreign exchanges might be secured and all legitimate requirements met by the simple and economical expedient of arranging that the Bank of England should sell its paper money at a fixed gold price, and buy back the notes when desired at $1\frac{1}{8}$ per cent. below that price, the gold employed to be in the shape of gold bars or any other form that would prevent its being used as a medium of local payment. He said a currency is in its most perfect state when it consists of cheap material, but of cheap material of an equal value with the gold which it professes to represent; and he added that a currency of this description might be equally well issued by a Government as by a Bank. (*See page 31.*)

This proposition of Mr. Ricardo was recommended by the Committee of the House of Lords and Commons appointed in 1819, to consider the expediency of the Bank of England resuming gold payments, and was afterwards adopted on a temporary footing in the Bill for their resumption, introduced by Sir Robert Peel. From 1st February, 1820, to 1st May, 1823, the value of our paper currency was raised gradually and successfully from its degraded position to the old fixed standard of £3. 17s. 10½d. paper money to the ounce of gold, by making the notes convertible into gold bars, that could not be used in the internal circulation. This short trial is the only one ever given to Ricardo's scheme, and it passed through the ordeal satisfactorily. The arrangement appears to be in every respect a suitable precedent for the Government of India to follow, as a temporary expedient at all events; and it is the duty of the Indian authorities to

Ricardo's
sug-
ges-
tions.

Ricardo's
remedy
successful.

consider carefully whether this scheme of currency, which was devised by our greatest currency authority, not merely as a temporary remedy, but as a permanent measure of reform, should not be adopted in India on a permanent footing. The reasons that induced Sir Robert Peel to prefer Lord Overstone's standard coin scheme to Mr. Ricardo's standard bar plan, as a permanent arrangement, were explained in his speech to the House of Commons on the 6th May, 1844. They will be found to be inapplicable as objections to the adoption of the scheme in India. He said, "It would be quite consistent with the principle of the metallic standard . . . to dispense with gold coins altogether and regulate the amount and value of paper currency by making it convertible only, according to the proposal of Mr. Ricardo, into gold bullion of a given amount . . . There is no doubt some expense in the maintenance of the metallic circulation, but none in my opinion sufficient to countervail the advantage of having gold coin generally distributed throughout the country accessible to all . . . The most effectual measure for promoting confidence in the paper circulation of the country is to require that the gold coin shall be in general use for small payments." These objections have little weight nowadays. On the one hand experience has shown that gold coins in pockets or tills are of no use as a support to our note system. They are not available as a reserve, as they are not get-at-able at times of an internal or foreign drain. On the other hand, the question of a scarcity of gold has assumed great importance. The Royal Commission in rejecting a modification of Ricardo's scheme submitted by Professor Marshall did not repeat Sir Robert Peel's objections. All they said was that the disuse of gold coins involved too great an alteration in our system of currency. It will be generally admitted, I think, that whatever force the objections made by Sir Robert Peel and the late Royal Commission may have with regard to the adoption of the scheme in England, they are inapplicable to the proposed introduction of the

Sir Robert Peel's preferences for standard coins.

The Royal Commission.

These objections inapplicable to India.

system into India. Gold coins are not used there, and the acceptability of the silver coins now in use will be disturbed rather than promoted if they have to compete with gold coins for public favour.

Adaptation
of Ricardo's
proposals
to India.

In applying Ricardo's proposals to India, little modification is necessary either of the proposals or of Indian currency arrangements. The only change in the proposals will be the substitution of sterling money for gold bars, and rupees for paper money. In India the currency mediums now in use will continue to be employed, and the alteration in the conditions under which they circulate will be felt as little as the motion of the earth on its axis. When additional currency is required in India at present, it is obtained from Government in two ways. Council drafts are purchased at the Bank of England, or silver bullion is imported, which can be coined at a small charge at the Indian mints. In order to carry out Ricardo's proposals, this open coinage of silver will be stopped, and fresh rupees will be obtainable only by purchase of Council drafts. This arrangement will increase the demand for these drafts; and the Bank of England, instead of selling them at rates that fall in accordance with the sterling price of silver bullion, will sell them freely to all applicants at a fixed sterling rate, sufficiently high to enable the Indian mints to coin rupees at a profit to meet the Council bills. The Bank of England will thus, on behalf of the Secretary of State, have the monopoly of the sale of Indian currency at a profitable sterling price, and all that is asked in return is that it will engage to buy back when desired at 1d. below that price any rupees that have been over issued and are tendered for reconversion into sterling, up to the limit hereafter specified.

It is obvious that the sale of Indian currency on this footing can be effected easily and with profit, and a little reflection will show that the conversion part of Ricardo's scheme can be carried out in connection with India under exceptionally favourable circumstances. It is only when a currency is

over-abundant that it can be spared for export or withdrawal. The Bank of England will therefore only be asked to repurchase rupees when the Indian currency is redundant and seeks export. Any rupees repurchased by the Bank at such times will be resaleable at a profit of 5 per cent. when the foreign drain ends, and the demand for fresh rupees revives. All moderate and short-lived demands for conversion of rupees into sterling will accordingly be profitable to the Bank. It is only an excessive and prolonged foreign drain such as would upset any scientific currency system that can interfere with the scheme. Such redundancies are rarely possible in currencies issuable only at a fixed gold price; and least of all possible in the rupee currency, which expands more than any other, with the exception of that of the United States (see also page 13). Again, were India an independent country, it would be necessary for her to hold at considerable expense a large reserve of gold bars to meet the demands that may occasionally arise for the export of currency; but India being a dependency she can with perfect safety keep the stock of gold in the mother country in the form of sterling money, and it so happens that there is a sum of about £5,000,000 in the Issue Department of the Bank of England which is held there, as explained by Sir Robert Peel in introducing the third clause of the Bank Act, in order that the Bank may, among other things, "give facilities for rectifying our exchange" with India, and facilitate exchange operations with that country. This sum can only be utilised in accordance with the intentions of the framers of the Bank Act in the purchase and resale of silver; and the money might with great profit to the Bank of England, and without the least risk or expense to the Government of India, be devoted to carrying out the conversion part of Ricardo's scheme. This conversion fund will influence the rupee currency just as the bimetallic mints influenced silver all over the world. The conversion fund will, however, have the additional protection of a fixed issue price for rupees.

Bank Act
provides
Conversion
Fund for
India.

Whenever a redundancy of currency occurred in India sufficient to make the export of currency desirable, rupees might be remitted home for conversion, like the silver guilders of Netherlands India, but needless expense would be incurred under this arrangement on the transfer and retransfer of the coin between India and the Issue Department of the Bank of England; and Parliament may be prepared to amend the silver clause of the Bank Act so as to admit of the silver part of the note reserve being held in the Indian mints, and thus render the clause better fitted to carry out the object for which it was designed. In a letter that appeared in the *Economist* of 25th July, 1891 (see APPENDIX), I suggested that this change would be desirable in the interests of the London money market, because, if made, the Indian banks will be able during periods of pressure in England to place large sums in silver in the Indian mints at the disposal of the Bank of England, and thus set free at a few hours' notice a corresponding amount of gold in London that could not otherwise be used as loanable capital. However this may be, it will be admitted that a concession of this kind, which will not in the least disturb the proportion of gold and silver coin circulating in the United Kingdom, is preferable to the open coinage proposals of the bimetallists; and I may point out that Holland, by admitting the silver coins of Netherlands India to circulate in the home currency, makes a much greater sacrifice for the sake of fixity of exchange with her dependency.

The following are the arrangements that appear necessary to place the Indian currency on the footing recommended by Ricardo:—

1. The Indian mints will stop open coinage and issue rupees only in payment of Council bills.

2. The Bank of England will sell Council bills to all applicants at a fixed profitable sterling price, 1s. 4d., 1s. 6d., or 1s. 8d., as may be selected after due consideration of all interests concerned, care being taken in raising the rate from the current figure to the fixed price that it is done gradually

Amendment
of Act would
facilitate
conversion
of Rupees,

and relieve
monetary
pressures in
London.

Outline
of scheme
for India.

by small gradations, so that trade may not be disturbed, and no encouragement given to speculate in exchange for a rise.

3. For every £10,000 of Council bills sold in excess of the sum required to meet home charges the Bank will purchase and ship to the Indian mints silver bullion, to be coined for payment of these Council bills.

4. The difference between the price paid for the bullion and the price obtained for the Council bills will be seigniorage earned by the Indian mints.

5. As soon as the Indian currency settles down at the fixed cost price, the silver clause in the Bank of England Act will be amended so as to admit of the silver portion of the note reserve being held in the Indian mints; and the mints will be prepared to purchase, by granting drafts on the Issue Department of the Bank of England at 1d. below Council bill rate, any rupees that may be tendered for conversion into sterling.

6. The rupees thus repurchased will be resaleable at a profit of 1d. each when the demand for Council bills revives, and this profit will be the remuneration of the Bank of England.

7. If it is considered desirable that the Indian silver coins should circulate at their local bullion value, and that the coins in the Native States should correspond in value to those in British India, this might be arranged by imposing a duty on a sliding scale, equivalent to the Mint seigniorage, on silver imported by others than Government: or the mints of the Native States might charge seigniorage corresponding to that levied by the mints in British India.

The rupee currency under this system will have the two safeguards required to make a token currency perfect—viz., a fixed issue price and a fixed convertible rate. It will expand and contract automatically, and being obtainable at a fixed sterling price and convertible at a sterling rate 1d. lower, it will bear a fixed value relatively to sterling, and will no longer follow the fluctuations in the price of silver bullion.

Working
of scheme.

Indian coins and prices, like home coins and prices, will represent a fixed quantity of gold ; and gold will be the standard of value, though it will not be used in the internal circulation.

Scheme
secures
a gold
standard.

Objections
of India
Office in-
applicable.

Bimetal-
lism.

Other
objections.

In this way a gold standard might be established in India without risk and with considerable profit to the State and the Bank of England, and with advantage to the London money market. There would be no increase in the demand for gold and little decrease, if any, in the demand for silver. The objections raised by the Home Government to the proposals made by the Government of India, in 1878, for the adoption of a gold currency, would not apply to this scheme ; and it would offer no hindrance to bimetallism should the course of events ever necessitate the re-establishment of that system of currency ; whereas if standard coins are to be introduced into India at a ratio of 20 to 1, as proposed by the President of the Indian Currency Association, it will be impossible for any nation or combination of nations to re-establish bimetallism at any lower ratio unless they are prepared to give India gold in exchange for all her silver, and it will be difficult for the Latin countries to reconcile their old ratio of $15\frac{1}{2}$ to 1 to a new one of 20 to 1. This exposition of the arrangements deemed necessary to place the Indian currency on the footing recommended by Ricardo will, I trust, enable all interested to understand clearly what is intended. It only remains to reply to the objections that have been made to the scheme.

It is curious to observe that though Ricardo was the leading bullionist of his day, and the best exponent of the doctrines embodied in the Bullion Committee's Report, many critics nowadays appear to think that Ricardo's scheme for " A Secure and Economical Currency " resembles an inconvertible currency scheme. They omit to notice that Ricardo makes a fixed quantity of gold bullion the standard of value, and makes the circulating medium correspond in value to this

standard, by giving it a fixed standard issue price and a fixed standard convertible rate.

The following are the only objections that appear deserving of notice :—

1. *“ It is said that the success of the scheme will depend on that doubtful factor, the balance of trade. If the balance of trade becomes adverse to India, the Indian currency will become redundant. A demand will arise for the conversion of the rupee currency into sterling. The conversion fund of £5,000,000 might be exhausted by this demand. And if so, it is argued that rupees will lose their extrinsic value, and exchange will fall till the rupee is worth its intrinsic value only.”*

To this I would reply that the balance of trade has always been favourable to India, and there is every reason to anticipate that when rupees are issuable only at a fixed sterling price, the balance of trade will be more favourable than ever. But if not, the fund of £5,000,000 should be ample to cover all possible demands for conversion of rupees into sterling. Besides, should a foreign drain exhaust this fund, and the conversion of rupees be suspended, exchange will remain fairly stable.

So favourable has the balance of trade hitherto been, that the net imports of silver into India during the last eleven years have averaged Rs. 88,599,762 per annum, and the silver coinage of the mints in British India from 1859-60 to 1889-90 has averaged Rs. 70,576,666 per annum. Large though these imports have been since Indian exchange began to decline, they were still larger from 1860 to 1870, so that, judging by this experience, there is reason to anticipate that the favourable balance of trade will again increase when exchange is once more stable. This view is confirmed by the following considerations :—

Balance o.
Trade.

(a) The balance of trade, in a country like India, that produces no silver and little gold, is governed in the long run by the demand for the precious metals for currency and other purposes. The more a country prospers the larger should be this demand. A steady exchange is beneficial to a country,

and the steadier India's important exchanges become the more should the country prosper, and the more favourable should be the balance of trade.

(b) Fear of a fall in the Indian exchange affects the balance of trade adversely in various ways. It causes the exchange banks to postpone and curtail shipments of silver to India, and induces them to economise their cash balances there as much as possible. It discourages the investment of sterling capital in India and in Indian securities, and encourages Europeans in India to invest their savings in Europe. These factors have an immediate effect on the balance of trade; and this withdrawal of capital from railway enterprise and other industries in India connected with the export trade has a more lasting effect.

(c) The remittance of securities from India to England should increase under a stable exchange, and will operate on the balance of indebtedness as an export.

(d) Gold imports should decrease, when the prospect of an ever-recurring rise in the price of the metal is withdrawn, and silver imports will thereby be stimulated.

(e) The higher the rate of exchange the fewer rupees will be sold against "home charges," and the more fresh rupees will be required to meet the demands of remitters to India.

It is feared in some quarters that the contemplated raising of the Indian exchange will tend to curtail India's export trade and stimulate her import trade, and thus disturb the balance of trade. This danger has been guarded against. It is proposed to raise exchange very slowly by small gradations so as to avoid any disturbance to trade. Besides, this fear is founded on a misapprehension. Since the decline in the Indian exchange commenced twenty years ago, the increase in the sterling value of India's exports has averaged $1\frac{2}{3}\%$ per cent. per annum only, while the increase in the sterling value of her imports has averaged $2\frac{1}{3}\%$ per cent.

My next point is that the fund of £5,000,000 should be ample to cover all possible demands for conversion of rupees

into sterling. The amount of this fund compares favourably with the amount of the gold reserve held in the United Kingdom. It is now generally admitted that the gold in the pockets and tills of the people is useless as a reserve. It is not get-at-able at times of local panic or foreign drain. The sole large surplus supply of cash available to meet a foreign drain and the banking deposits of the country rests in the Banking Department of the Bank of England. The balance of this Department has averaged £13,700,000 of late years; and when it is borne in mind that this is the sole important supply of gold available to meet deposits that aggregate about £1,000,000,000, it will be seen how little of this fund is left to meet a foreign drain. This fund of £13,700,000 is liable to local as well as foreign drains; whereas the £5,000,000 can be drawn upon only for foreign purposes. It is, of course, difficult to frame any reliable estimate of the maximum demand that might arise at any one time for conversion of rupees into sterling. Professor Soetbeer believes that the amount of silver now in circulation in India is under 2,000,000,000 rupees. Mr. F. C. Harrison, of the Indian Financial Department, after prolonged and careful inquiry and research, has arrived at the conclusion that the total currency in India, including coins in the Native States, amounts to 1,661,700,000 rupees, or at 1s. 4d. each, £110,780,000. The only portion of this available for export at any time would be the surplus funds in the hands of the banks. These funds are deposited mostly with the three Presidency banks, and their cash balances rarely exceed twelve crores of rupees, or say £8,000,000, at the height of the slack season.

England's
Reserve
Fund.

India's
Reserve
Fund.

The withdrawal of any large portion of these balances for conversion into sterling would set forces in motion, under a currency scheme such as Ricardo's, that would speedily rectify the adverse balance of trade.

It has been suggested that rupees might come out of native hoards for purchase of the mint drafts on London; but there is no reason to anticipate any such departure from the

Native
hoards.

ordinary state of things. There never has been any large or lengthy redundancy of currency, and there never should be one—at all events, until the natives take freely to the use of paper substitutes, and then Ricardo's scheme will be more profitable than ever, because Government will issue paper money instead of silver coins.

Experience is, however, the best test in matters of this kind; and seeing that, during the seventy years when the French Mint was prepared to coin silver into francs that could purchase gold and other commodities at a ratio of $15\frac{1}{2}$ to 1, India never took advantage of this opportunity to convert her rupees into gold free of charge, there is little reason to anticipate that India will call upon the Bank of England to convert rupees into sterling to any large extent at the proposed charge of 5 per cent. The conversion fund will influence the rupee currency just as the Latin Mints influenced silver all over the world; and the conversion fund will have the additional protection of a fixed issue price for rupees.

If, however, the worst should come to the worst, and the conversion of rupees into sterling by the Bank of England be suspended owing to the exhaustion of the £5,000,000, this suspension of convertibility will have no more effect on the rupee than the restriction of convertibility in France in 1870 had on the notes of the Bank of France. The value of the rupee will be as independent of its material value as was the value of the notes, and it will be less liable to depreciation because whereas the Bank of France had power to overissue the notes, no rupees will be issuable until the redundancy ends. The rupee currency will be placed temporarily on an inconvertible footing, but it will escape the important danger that attends inconvertible currencies—viz., over-issue. Exchange may fall, but the fall will be limited, according to the period the redundancy is expected to last. It will be known that no fresh rupees can be issued until the redundancy ends and rupees regain their fixed issue price. There will thus be a fixed point of recovery, which the present Indian currency

Bimetallic
Conversion
Fund.

Suspension
of Conversion
Fund.

Scheme
ensures
stable
exchange
under all
circum-
stances.

and all inconvertible currencies lack, and the exchange banks will be able to sell bills on London in the confident expectation that the rupees thus obtained will be resaleable ere long at the fixed issue price. There is, accordingly, every reason to expect that the Indian currency will, like the French currency in 1870, escape any serious depreciation even should conversion into sterling be temporarily suspended. At all events, the vast expansion of the coinage in the past shows that the risk of any large or long-continued redundancy is so remote that, to deny India the benefits of Ricardo's scheme for fear that a redundancy of money might place her currency on an inconvertible footing on rare occasions would be absurd, especially as her present system of currency is more objectionable than any fairly well-regulated inconvertible system.

Before passing from this objection I may point out that any adverse balance of trade that would disturb this scheme would be trebly injurious either under the present system of currency or in event of a gold currency being introduced. The Indian demand for silver is one of the main props of the price of silver, and if an unfavourable balance of trade not only stopped this demand, but forced India to export silver to Europe for sale, there would be an utter collapse in the silver market, and under the present system a corresponding collapse in the Indian exchange. Then, again, if gold coins were introduced and made to circulate at their full value jointly with silver coins bearing extrinsic value, an adverse balance of trade might disturb the relation between the coins. The gold coins would be the only ones fitted for foreign payments. Those circulating in the tills and pockets of the people are not available for export, and it would be found that unless the Presidency Banks were able at the time to spare £5,000,000 worth for export, the gold currency would be less able to stand a foreign drain than a silver currency on the footing proposed by Ricardo.

Present system would collapse under adverse balance of trade.

Gold currency less secure than Ricardo's scheme.

2. " *It is said that the weakness of the scheme lies in this—that the Indian Government must remit annually about*

£15,000,000 to meet its home charges, and that it may be unable to do this if its Council Bills are saleable in London at a fixed rate only."

Home
charges.

This objection can be met in the same way as the previous one. Hitherto not only has there been a steady demand for all Council Bills available, but there has been a demand in addition for new coinage to the extent of Rs.70,000,000 annually on an average; and this demand for fresh Indian currency is likely to increase when the dread of an ever-recurring fall in its price is removed. Besides the facilities hitherto available for remittance to London will be supplemented under the scheme by the Conversion Fund of £5,000,000, and even should this be exhausted the exchange bank will, as previously explained, be ready sellers of Bank Bills on London at 1d. or so below the fixed Council Bill rate.

3. "Some critics appear to think that the Bank of England would not be justified in devoting the fifth part of its note reserve to the conversion of the Indian currency, and it has been said that the Bank Act authorises the Bank to hold silver bullion only, not silver coin."

India's
claim on
bank-note
reserves.

The clause in the Act reads as follows:—"And whereas it is necessary to limit the amount of silver bullion, on which it shall be lawful for the Issue Department of the Bank of England to issue Bank of England Notes: Be it therefore enacted that it shall not be lawful for the Bank of England to retain in the Issue Department of the said Bank at any one time an amount of silver bullion exceeding one-fourth part of the gold coin and bullion at such time held by the Bank of England in the Issue Department."

In explaining the reason for introducing this clause in the Act, Sir Robert Peel in his speech of 20th May, 1844, said: "A stock of bullion in the Bank is convenient to our trade, particularly with India and China. . . . If we provide that the amount of silver on which issues may take place shall not exceed one-fourth of the amount of gold, we shall probably insure the maintenance of such a stock of

silver as may give facilities for rectifying the exchanges and supplying the demands of commerce, and incur no risk of infringing upon that principle which will impose a positive obligation upon the Bank to receive gold in exchange for notes, and to pay notes in gold coin on demand."

It is evident from this that the Bank is permitted to invest about £5,000,000 of its note reserve in silver bullion in order that it may, among other things, give facilities for rectifying our exchange with India, and may facilitate exchange operations with that country. The only valid reason why these facilities are not granted at present is that risk of loss is incurred in holding silver; but there need be no risk under the arrangements proposed. If rupees are obtainable only through the Bank of England at a fixed gold price, the Bank will incur no risk in repurchasing up to this limit of £5,000,000 any rupees that have been over-issued, and are tendered for conversion into sterling at 1d. below cost price, because when the demand for fresh currency revives (and revive it must if we can trust currency laws and past experience) these rupees will be resaleable at a profit of about five per cent. Besides, if necessary, the resale of the rupees at this price can be guaranteed by the Government of India.

It is possible that, from a legal point of view, the permission to hold silver bullion may not imply sanction to hold silver coin; but it is unlikely that Parliament will allow any trifling technical objection of this kind to nullify the clause and prevent traders with India having the advantage of this much-needed boon, which was designed chiefly for their benefit, and can be granted without injury to any other interest.

4. *"If free coinage in the United States or any other cause should raise the gold price of silver above the rate adopted in India, the Government would be forced to issue rupees at a loss."*

This objection is met by the stipulation in the scheme that the rate adopted in India for the issue of rupees shall be one

Any rise in price of silver could not upset scheme.

profitable to Government. If the gold price of silver should rise above the Indian rate, it will be necessary to fix upon a fresh sterling price for the issue of rupees. This change would cause an unfortunate fluctuation in exchange; but this fluctuation would be greater under the present system, and one fluctuation is less injurious than many. Besides, now that Austria has opened her mints to the coinage of gold, and has fixed a ratio of 18½ between her gold and silver coins, it will be impossible for any nation or combination of nations to raise the gold price of silver above the equivalent of 1s. 8d. per rupee, unless they are prepared to give Austria convenient gold coins at that ratio in exchange for all her cumbrous silver ones.

5. *"A leading financial organ says that the notion that, by merely declaring that it will not coin or pay out silver except in exchange for gold, the Indian Government can at once and by a single stroke confer upon the rupee any value in exchange it thinks fit, is wholly chimerical."*

The reply to this is that, it is not the stroke of the pen, but the increase in the price that will raise the value of the rupee. The weekly sales of Council drafts in London show there is a steady demand for rupees, and as rupees will be no longer procurable for less than the fixed sterling price, they will rise to that price. In 1890 the price of rupees rose from 1s. 5d. in January to 1s. 8½d. in August, following closely all the time the cost price of the new issues, and it is well known that a seigniorage charge increases the circulating value of coins *pro tanto* as long as there is no over-issue.

6. *"Closing the mints would create a scarcity of currency, and enhance the rates of interest."*

The mints will not be closed. They will issue rupees at a fixed sterling price, and there is not the least likelihood that the rise in the issue price of the rupee will tighten the Indian market. A little reflection will show that anticipations of a rise on exchange induce the exchange bankers and other importers of currency to increase imports; and we have always

Value of
rupees
currency
ruled
almost
invariably
by current
cost price.

Scheme
would ease
money
market.

found that the Indian money market tends to become easy when a future rise in exchange is expected, and tightens when there is a prospect of a fall in exchange.

7. "*In India rupees are valued as metal as well as a medium of exchange ; and if their circulating value is raised above their material value, they might become discredited in India as well as in neighbouring countries.*"

In reply to this it may be said that the force of habit in circulation is very strong, and there is no reason to fear that the unsuitability of the rupee for the melting-pot will interfere with its acceptability as a medium of payment. Silver guilders in Netherlands India bear a much greater extrinsic value than that proposed for the rupee, and they continue popular as a medium of payment. Copper is valued as a metal in India, and copper coins are freely accepted as money all over India, though they bear extrinsic value greatly exceeding any that the rupee is likely to be called upon to bear. In all probability fewer rupees will be used in the manufacture of ornaments, but not to any important extent. Besides, should it be desired at any time to stimulate the use of rupees in the manufacture of ornaments, this might easily be arranged by imposing an import duty on silver imported by others than Government.

Acceptability of rupees would be improved.

With regard to outside countries, the only rupees exported from India to any important extent are those sent to Ceylon, Mauritius, and small Eastern ports that have no mints, and must use Indian currency ; and the rupees will be all the more popular at these places if maintained at a fixed value relatively to gold, because these countries trade largely with Europe and desire fixed exchange with Europe.

8. "*As Government will profit largely by the issue of rupees, they will be tempted to over-issue them.*"

This is a misconception. The currency will be automatic, and will regulate itself. There can be no over-issue, for the money will be issuable only at a fixed price ; and should redundancy occur, the money will be tendered for conversion

Over-issue impossible.

into sterling. Besides, in all matters of this kind the Government of India is subject to the check of the Home Government.

9. *"It is extremely improbable that the Indian Government would gain by keeping up exchange on London as much as it would lose on the sales of its opium."*

Opium.

There are no grounds for this assertion, seeing that the sale of Council drafts under the proposed scheme will in all probability amount to three times the value of the opium. The figures for the official year 1890-91 were :—

Council drafts	Rs. 211,869,000
Silver coined in Bombay mint...	85,244,802
	Rs. 297,113,802
Opium exports	92,618,114

10. *"India will have to face violent fluctuations in exchange with silver-using countries."*

Silver
Exchange.

India is, of course, bound to suffer either in her silver or gold exchange. Two-thirds of her foreign trade and almost all her foreign finance transactions being with gold countries, she prefers fixity in exchange with them.

11. *"It is alleged that a falling exchange, by increasing the amount of silver money obtainable for a gold price, operates as a bounty on exports from silver-using countries to gold-using countries, and although it has been found that each fall in the Indian exchange is followed, as a rule, by a corresponding drop in gold prices, and the Indian producer gains nothing, still it is held that he has an advantage over his competitors in gold-using countries ; and it is said that if the Indian exchange is fixed at 1s. 6d. the Indian producer will be handicapped unfavourably with his rivals in China and Japan, as well as deprived of his advantages over his competitors in the West."*

Stimulus
to trade.

The answer to this is, that the proper function of money is to act as a medium of payment and a standard for deferred payments, both in internal and foreign transactions, and its work in connection with foreign transactions cannot be properly performed unless foreign exchange is steady. It is

not the duty of money to stimulate exports, and as there are two parties to each payment, and money is merely an intermediary, it is obvious that what one gains in this way someone else must lose. Injustice of this kind should be stopped, and the monetary machine should be adjusted so as to carry out properly the functions for which it was designed. It might also be asked how much of a fall will satisfy Indian exporters. If India will be unfavourably handicapped relatively to China with exchange at 1s. 6d., it follows that she will, on the other hand, be favourably handicapped relatively to her more important rival—America—because her exchange with Europe will have dropped about 25 per cent. from its old level, whilst America's exchange with Europe will maintain its old position. The so-called advantage of 25 per cent. on the one side should surely balance the disadvantage on the other.

Besides, there is good reason to doubt whether a falling exchange stimulates production in the long run. The statistics of Indian trade do not show any greater progress than might have been expected from other causes. During the past twenty-five years the Cape route has been replaced by the Canal route. Import and export duties have been removed. Banking and inland transport facilities have greatly increased. The railway mileage open has risen from 5,077 miles in 1871 to 16,996 in 1891, while the increase of trade has been as follows:—

AGGREGATE FOREIGN TRADE OF FIVE YEARS.

1867-68 to 1871-72	-	Rs. 5,117,489,860 @ 1s. 11½d.	-	£501,087,548
1887-88 to 1891-92	-	9,339,974,170 @ 1s. 5d.	-	661,581,503
				<u>£160,493,955</u>

or, at the rate of $1\frac{2}{5}$ per cent. per annum, a very small improvement when compared with the progress made in Netherlands India, Australia, America, and other countries, with a gold standard. Advocates of the exchange stimulus theory have been in the habit of comparing the increase in the silver value of the Indian trade with the expansion in the gold value of the trade of other countries, but it is evident

that one standard should be selected when comparing the values. It is to be feared that too many other comparisons are made on this false basis.

12. *"It would not meet the real difficulty of the present situation in India, which is that, owing to the fall in all gold prices, a larger amount of produce has to be exported in payment of gold debts."*

The reply is, that the real difficulty, and the easily remediable difficulty, is the uncertainty in the ratio between the Indian standard of value and the international standard, which causes intolerable inconvenience and injustice.

The State loss in exchange is a small matter compared with the loss, inconvenience, and injustice suffered by others in their transactions with gold-using countries. The fall in gold prices would not injure India much were her exchange fixed at 1s. 4d., 1s. 6d., or even 1s. 8d. Not only is this fall in gold prices a secondary evil, but it is caused to a great extent by the paramount evil, the uncertainty of exchange with gold-using countries. If exchange is fixed, the chief monetary cause of the fall in gold prices will be removed. This point is an important one.

Fall in
gold prices.

Prices are affected by monetary causes in two distinct ways. In the first place, prices are liable to be disturbed by the appreciation or depreciation of the standard substance. This is a slow and obscure process. No one can tell how or when it begins, or how long it lasts; and the evil is so difficult to estimate that its rectification has never been attempted by any Government. In the second place, prices are affected by fluctuations in the foreign exchange. This process is visible to all; and every civilised Power, except the United Kingdom, considers it one of its most important duties to restrict the evil as much as possible. In the report of the Royal Commission, part 2, paragraph 75, it is said: "It is impossible that there could be for more than a short period a greater difference between the silver price of a commodity used in and exchangeable between the silver and

gold-using countries and the corresponding gold price than would be represented by the cost of transferring the commodity from the silver to the gold-using country, or *vice versâ*. Whenever, then, a fall takes place in the gold value of silver, either the gold price of these commodities must fall or the silver price must rise, or the adjustment must be brought about by both these operations combined."

This cause of disturbance to prices is clear and tangible, while the other is imperceptible and doubtful. No money market report attempts to state how far gold has appreciated on any special day or for any period; whereas each fall in the gold price of silver and the corresponding drop in the Indian exchange is instantly reported in the papers and telegraphed all over the world, and the next price list issued will, in all probability state that, in sympathy with this decline in Indian exchange, there has been a fall in the gold prices of all articles interchangeable with the East. In these days of competition it is easier for prices to fall than to rise, and all who have any practical knowledge of Eastern trade will admit that a fall in the rupee exchange, however caused, is invariably followed by a decline in the gold value of Indian products and imports.

Here is a tangible cause of a fall in gold prices, which can be removed by the adoption of a gold standard in India; and is it not folly in the extreme to object to this remedy on the ground that if a gold standard were adopted on the footing recommended by Ricardo, the appreciation of gold—that Will-o'-the-wisp bogey—might in some unexplainable way be intensified. It should be evident to all that the proposed scheme will have precisely the opposite effect. It will remove the chief monetary cause of the fall in gold prices—viz., the decline in exchange, and it will alleviate the scarcity of gold, if there be a scarcity, by setting free gold in the Issue Department of the Bank of England.

13. "*It is said the scheme will necessitate infringement of the coinage rights of the Native States.*"

Native
States.

But the Native States will only be asked to coin on the same profitable terms as the Government of India, and they will doubtless be happy to comply with the wishes of the paramount Power in this respect.

14. *"Other critics declare that illicit coining of genuine silver will be encouraged by raising the current value of the rupee above its intrinsic value."*

Illicit
Coining.

This need not be feared. Little or no illicit coinage has taken place in Europe or America since the fall in silver commenced, though the facilities for counterfeiting coin are greater in the West than in the East, and the extrinsic value borne by silver coin in the West being much greater than is contemplated in India, there will be much less temptation to commit the crime in the latter country.

15. *"The last objection that need be noticed is that the scheme is a departure from the generally recognised principle that the safest and most acceptable coins are those which circulate at a value equivalent to the value of the quantity of metal they contain."*

Full value
coins.

Full value gold coins are, I readily admit, a very safe and convenient form of currency, and wealthy nations that can afford the expense are entitled to indulge in this luxury; but full value silver coins are not only cumbrous and inconvenient for use in all payments except as small change, they are also quite unfit to perform one of the most important functions of money—viz., to act as a standard for deferred transactions with gold-using countries. Whenever they are used the important foreign exchanges fluctuate and cause inconvenience and injustice. A coin is, after all, merely a medium and measure, which we take to give away; and it matters comparatively little whether it possesses full material value or not, so long as it is generally acceptable, and is the most accurate standard of value we can obtain both for internal and foreign payments. We should not be satisfied with weights and measures, which, while weighing and measuring home products with fair accuracy, were unre-

liable, and gave one man an unjust profit, and caused another man unjust loss, when used to measure foreign products; and if we were told that we ought to be content with these unreliable weights and measures because they were made of solid silver in the old orthodox pattern, we should reply that accuracy as a standard both for foreign and local trade was the prime requisite, and as long as they possessed this quality it mattered comparatively little, how or of what they were framed. Now, if the Bullion Committee's Report of 1810, and the proceedings of the House of Commons in connection with the Bank Act are studied, it will be found that full value coins were selected as the basis of the currency system of the United Kingdom, solely with the object of protecting our foreign exchanges from fluctuations. The currency of England at that time, like the Indian currency now, was depreciated relatively to foreign currencies; and the great principle which the leading currency authorities upheld was that the currency of a commercial country should be maintained at a fixed value relatively to the currencies of the countries with which it has important dealings. All bullionists agreed on this principle, but they differed as to the best method of carrying it into effect. Ricardo suggested one method, Lord Overstone another. The former held that currency mediums bearing extrinsic value would suffice for use in the internal circulation as long as they were convertible into full value metal when required for use abroad. The latter thought that currency should be composed of standard coin, and paper convertible into standard coin, and as Sir Robert Peel took the same view this plan was adopted here and in India, gold standard coins being used in the one country, silver standard coins in the other. The gold standard coins still answer the purpose for which they were designed; but the silver coins of India on their present footing, instead of keeping her currency fixed relatively to the value of the currencies of the countries with whom she is most intimately connected, have precisely the opposite effect, and

force her currency to fluctuate to a serious extent relatively to gold, the international standard. All other countries under civilised government see the absurdity of maintaining an expensive currency system that defeats its own object. One by one they have ceased to make silver standard coins the basis of their currency system. Some have adopted gold standard coins. Others are endeavouring, with varying success, to keep their currencies at a level with gold, or as near thereto as possible, by the use of inconvertible paper. But all have repudiated the absurd policy we adhere to in India. Our mistake is the old and common one of looking more to the method than to the object to be accomplished. Rupees of full value having proved to be a failure in India for many years past, it is high time that rupees bearing intrinsic value should be given a trial there.

Besides, if the proposed duty on silver imports is levied, the current value of the rupee will be found to correspond with its local bullion value. Both the rupee and the bullion will have so-called extrinsic value.

II.—INTERNATIONAL CURRENCY SCHEME.

In the foregoing pages the exchange remedy designed by Ricardo is discussed with special reference to the case of India. It appears desirable to point out also how easily all important currency difficulties of the present time might be solved if the poorer nations that use gold coins, and all the countries that have inconvertible paper or silver standards would adopt a gold standard without a gold currency on the footing recommended by Ricardo in his celebrated scheme for "A Secure and Economical Currency." The disuse of gold coins would extend the employment of silver coins, and a gold standard would be universally adopted with the use of the

minimum quantity of gold necessary. It is too much to hope that this solution of our currency troubles will find general acceptance; but in these days we have to face an unprecedented extension in the employment of gold in currency systems, and this movement will in all probability, in the absence of bimetallism, continue to spread until gold becomes the standard of value in all countries under civilised government. In these circumstances it is a matter of vital importance to ascertain how a gold standard can be maintained on a satisfactory and permanent footing with the least possible pressure on the supply of gold. An International Monetary Conference is about to assemble to consider by what means, if any, the use of silver can be increased in the currency system of the nations, and the Members of the Conference might be invited to consider at the same time the equally important problem as to how gold can best be economised in currency systems. If they undertake this twofold duty, they will probably find that Ricardo, the greatest master of currency science, suggested seventy-six years ago a system of currency which, by discontinuing the use of gold as a medium of local payment, and employing it solely as a basis for convertibility and as the medium of international payment, would limit the quantity required to the legitimate extent needed as a standard of value, while at the same time the disuse of gold coins would increase the demand for silver coins. There can be no doubt that if this economy in the use of gold and extension in the use of silver appeared desirable in the days of Ricardo, they are all the more necessary now. Important commercial countries that can afford to indulge in the luxury of gold coins cannot be expected to relinquish their use; but all other countries that desire to adopt a gold standard should be recommended by the International Monetary Conference to adopt the currency system suggested by Ricardo.

General
advantages
offered by
the scheme.

The novelty and economy of the scheme lie in the arrangement that forbids the use in the internal circulation of the substance used as a standard of value; and the security and

Nature
of scheme.

efficiency of the scheme arise from its being regulated by the prices of commodities and loan market rates through the medium of a steady foreign exchange, aided by the principle of convertibility. Ricardo was one of the first to teach us that the quantity of currency in a country should be regulated by the prices of commodities, home and foreign, and now that, owing to the dislocation in the prices of the precious metals, silver is no longer an international standard, and the export and import of silver currencies can no longer be regulated in the old way, Ricardo teaches how silver currency can be best and most economically maintained on a gold standard, and regulated according to the currency law he did so much to expound.

It has long been held that an inconvertible paper currency can be fairly well regulated by the price of bullion and the foreign exchanges. The celebrated Bullion Report of 1810 contains the following passage :—" Your committee beg leave to report it to the House as their most clear opinion that, so long as the suspension of cash payments is permitted to subsist, the price of gold bullion and the general course of exchange with foreign countries, taken for any considerable period of time, form the best general criterion from which any inference can be drawn as to the sufficiency or excess of paper currency in circulation." John Stuart Mill says :—" An inconvertible currency regulated by the price of bullion would conform exactly in all its variations to a convertible one, and the advantage gained would be that of exemption from the necessity of keeping any reserve of the standard metal." Professor Jevons writes :—" Regulation by the foreign exchanges . . . if perfectly carried out, would give exactly the same results as the deposit method, and is only a loose and direct way of reaching the same end."

These extracts refer to inconvertible paper currencies ; but Ricardo showed us how to unite in the most economical way the principles of regulation by convertibility and regulation by the foreign exchanges. He suggested that by abolishing

gold coins and making the paper, silver, and copper currency convertible into gold in a form that would prevent gold being used in the internal circulation, the employment of gold might be restricted to the extent necessary to maintain the currency permanently at a fixed value relatively to gold. He says:—"A currency is in its most perfect state when it consists wholly of paper money, but of paper money of an equal value with the gold which it professes to represent. The use of paper instead of gold substitutes the cheapest in place of the most expensive medium, and enables the country to exchange all the gold, which it before used for this purpose, for raw materials, utensils, and food, by the use of which both its wealth and enjoyments are increased." Ricardo suggested that our paper, silver, and copper money should be based, not on gold coins, but on stamped gold bars weighing 20 ounces each. He argued that if the paper, silver, and copper *media* were in excess and showed signs of falling below their gold value, they would be taken to the mint and exchanged for gold bars for exportation; if the *media* were deficient, gold bars would be taken to the mint and currency demanded. Within the country the paper, silver, and copper *media* would meet all legitimate monetary requirements, while for the payments of the balances of foreign trade stamped gold bars are better suited than coins.

In this system of currency, gold will be employed only when a demand arises for the export or import of money. Gold in the form of bars will be the international medium of payment. Each country will keep a reserve of these bars sufficiently large to meet all possible demands for the export of currency, and will provide a margin over and above this, so that during the severest foreign drain no apprehensions need arise of the supply of bars falling short. All the rest of the gold that at present circulates in the tills and pockets of the people, which according to Mr. Goschen, is not get-at-able at times of foreign drain, will be sold for raw material, utensils, and food, as proposed by Ricardo.

Three points in this currency scheme deserve attention at a crisis like the present.

1st. It establishes a perfect gold standard on a permanent footing. All economists admit this. If any one doubts it, he will be reassured on reading articles on this subject by the late Lord Sherbrooke in the July number of the *Fortnightly Review*, of 1879, and by Mr. Grenfell in the *Nineteenth Century*, May, 1882, or by perusing the evidence given by Professor Marshall before the recent Royal Commission on Gold and Silver.

2nd. It maintains a gold standard with a supply of gold much smaller than is necessary when gold is employed in the internal circulation. All gold-using countries employ gold at present both for internal and foreign payments, and it is evident that they will need less if they will use gold only for the latter purpose.

3rd. The disuse of gold coins will lead to the extended use of silver in currency. In order to enlarge the employment of silver, Professor Soetbeer proposes that the coinage of gold coins worth less than 15s. 10½d. should be discontinued; but one sovereign may be used instead of two half-sovereigns, and the extension of the demand for silver coins will be much greater if the use of gold coins is entirely discarded.

These three features in Ricardo's currency scheme, and the facilities it offers for the institution of an international uniform system of expressing accounts, induced the writer to suggest, sixteen years ago, that if the difficulties arising from the appreciation of gold, depreciation of silver, and uncertainty in exchanges between gold and silver-using countries, should call for the adoption of an international currency system, Ricardo's scheme would be found to offer many advantages.

Our chambers of commerce frequently unite in demanding that the currency shall be placed on a decimal footing, and there are occasionally academical discussions as to the desirability of an international monetary system, or at all

Scheme
will avert
a silver
crisis.

Inter-
national
currency.

Uniform
system of
expressing
accounts.

events a uniform system of expressing values; but the currency is a thorny subject for our legislators to handle, and we appear to be as far from improvement as ever. It is expected, however, that several schemes for international currencies are to be submitted to the forthcoming International Monetary Conference; and it may be well to invite attention in passing to the simple manner in which uniformity in the mode of expressing values might be attained under Ricardo's scheme. If gold coins were abolished, and notes and coins bearing extrinsic value only remained, and were kept at a fixed value relatively to gold by convertibility into a fixed quantity of bullion, it would be easy to adjust the current value of these notes and coins to the ratios desired by readjusting the fixed quantity of bullion.

For example—

Token coins.	Present bullion equivalent grams gold.	Proposed bullion equivalent grams gold.	Variation about
1 English penny	·03051	·030	2 per cent.
1 United States cent	·01504	·015	1 „ „
1 Dutch cent	·00605	·006	1 „ „
1 German pfennig	·00358	·0036	$\frac{1}{2}$ „ „
1 French centime	·002903	·0030	$3\frac{1}{8}$ „ „

These quantities of gold represent the current value, not the intrinsic value of the coins; and the small variation in the value is attained without any change in the coins themselves.

Taking as a unit ·03 grams gold, the coins on the new footing would compare, and might be described as follows:—

1 English penny	= one unit.
1 United States cent.	= half unit.
1 Dutch cent.	= fifth of unit.
1 German pfennig	= $\frac{3}{25}$ unit.
1 French centime	= tenth of unit.

In naming the coins, figures had better be used instead of words, as they are universally understood; and the style of

expressing all the moneys of account might be altered as follows :—

	Present style.	Proposed style.
English . . .	Pounds, Shillings, Pence	240 ^s 12 ^s 1 ^s
United States .	Dollars, Cents.	50 ^s $\frac{1}{2}$ ^s
Dutch . . .	Florins, Cents.	20 ^s $\frac{1}{5}$ ^{ths}
German . . .	Marks, Pfennigs	12 ^s $\frac{3}{25}$ ^{ths}
French . . .	Francs, Centimes	10 ^s $\frac{1}{10}$ th

In this simple way, and with this unimportant change in values, a system of expressing accounts might be adopted that will enable any one to comprehend at a glance the equivalents in their own money of any values expressed in foreign accounts and trade circulars, and by bearing in mind that one unit represents '03 of a gram of gold, the quantity of gold that each amount represents will be known.

APPENDIX.

EXTRACT FROM THE “*Economist*” OF 25TH JULY, 1891.

A BANKING RESERVE SAFETY VALVE.

To the Editor of the “ECONOMIST.”

SIR,—According to Mr. Lidderdale, the one thing most needful in banking arrangements is the general recognition of the fact that the maintenance of a sufficient cash reserve for national wants is the concern of all banks, and not merely of the Bank of England alone; and I wish to point out that, by a simple change in the Bank Act, that will entail neither risk nor inconvenience, it might be made the interest as well as the duty of the Indian banks to increase the loanable capital in London at times of pressure to the extent of £4,000,000 to £5,000,000.

The Bank of England is at present authorised to substitute silver for gold as a note reserve to the extent of one-fifth of the total reserve, and Mr. Lidderdale will admit that, for all practical intents and purposes, it is immaterial whether this silver note reserve lies in the Bank's vaults or in Her Majesty's mints in India. There has been no run on the note reserve since the present Bank Act came in force; and in event of such a run, the silver reserve would not be touched till the last, and even then, those prepared to accept silver would in all probability prefer taking delivery of the metal in India, where it can be used for large payments, rather than in England, where it is useless for such purposes.

In these circumstances there should be no objection to an alteration in the clause in the Bank Act regarding the silver reserve which will admit of that reserve being held in the Indian mints; and if this change is made, the Indian banks will be able during times of pressure in London to place £4,000,000 to £5,000,000 worth of silver in the Indian mints at disposal of the

Bank of England, and thus set free a corresponding amount of gold in London that could not otherwise be used as loanable capital.

The two most effective cures for a monetary crisis hitherto adopted have been—first, the temporary suspension of the clause in the Bank Act that prevents the Bank of England using as loanable capital the gold held as a note reserve ; and, secondly, the importation of gold from abroad. Serious delay is apt to occur before relief can be obtained in either of these ways ; whereas the simple change in the Act now recommended will enable the Bank of England to utilise one-fifth of the note reserve without breaking the statute law, and will place a foreign banking reserve at England's disposal in the quickest manner possible—viz., by telegram.

When money is tight in London there is generally pressure in Paris and other continental banking centres ; but the opposite is the case in India, as money is usually scarcest in England and most plentiful in India in the autumn. In November last, when the Bank of England was quoting 6 per cent., and had to borrow £3,000,000 from the Bank of France, the three Indian Presidency Banks were unable to lend much at 3 per cent. Their cash balances aggregated 13 crores of rupees, or say 10 millions sterling, and they would gladly have lent the Bank of England £3,000,000 at 2 per cent.

The special advantage of this proposed addition to the London banking reserve is that, unlike local reserves, it will operate automatically like a safety-valve, coming into use when the pressure for money in London exceeds that in India, and ceasing to act when the opposite is the case.

The arrangement will also supply India with a much-felt want—viz., a remedy for the redundancy of currency. When other important commercial countries suffer in this way, they export their currency metal ; but at present India cannot do this to any extent without causing a serious fall in the value of her currency.

A. M. L.

CALCUTTA, 30th June.

OPINIONS OF THE PRESS.

Rangoon Gazette, November, 1876.—“If our financial authorities will arrange the currency on this basis, they will not only remove its chief existing defect, but will place it on a footing yielding constant profit to the State.”

Bankers' Magazine, November, 1877.—“Mr. L. will, we hope, continue to direct his attention to the matter, and he will, we trust, be able to develop some plan which may be of service to the finances and the well-doing of India, by enabling that country to supply itself with a better standard of value than it now possesses.”

The Indian Daily News, July, 1885.—“This plan was thoroughly and carefully put before the public recently in an able article in the *Calcutta Review*, and it is a great pity that this article has not received more general attention, and that merchants and others interested have not more widely discussed the feasibility of the plan proposed. . . . The whole question deserves careful investigation.”

The *Calcutta Englishman*, April, 1892.—“An ingenious solution of the exchange difficulty. . . . It appears to us to be the only one worthy of serious consideration now.”

The *Manchester Guardian*, June, 1892.—“The suggestion deserves attention, and ought to be effectively put forward at the approaching conference.”

The Fortnightly Review, July, 1879.—“The jargon of the little shilling and of wealth to be obtained, not by labour but by endless issues of worthless paper, have cast discredit on the really wise and safe proposals of Ricardo, which were his last contribution to economical science, the mature results of a study of a life. . . . It is in the power of the Indian Government not only to extricate itself from its tribute (loss on exchange) of upwards of three millions a year, but to obtain, without taking anything from any one, an enormous sum which must otherwise be expended in the purchase and maintenance of the future gold currency.”—ROBERT LOWE (LORD SHERBROOKE).

